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BEFORE THE

PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. For Approval of Rate Increases and Revised Rate Schedules and Rules, and for Approval and/or Modification of Demand-Side and Load Management Programs and Recovery of Program Costs and DSM Utility Incentives.	)	DOCKET NO. 04-0113

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PUBLIC UTILITIES COMMISSION

DEPARTMENT OF DEFENSE'S RESPONSE TO

INFORMATION REQUESTS (REVENUE REQUIREMENTS)

FROM HAWAIIAN ELECTRIC COMPANY, INC.

AND

CERTIFICATE OF SERVICE

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FROM HAWAIIAN ELECTRIC COMPANY, INC.

COMES NOW, DEPARTMENT OF DEFENSE ("Applicant") by and through its undersigned attorney, in accordance with Stipulated Prehearing Order No. 21727, issued April 18, 2005, as amended on June 22, 2005, and hereby submits its Response to Hawaiian Electric Company, Inc.'s ("HECO") Information Requests (Revenue Requirements). The electronic files for DoD's Response are not enclosed herein but will be e-mailed to the Public Utilities Commission, HECO, and the Consumer Advocate separately this day.

DATED: Honolulu, Hawaii, July 25 2005.

Randall Y.K. Young

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HECO/DOD-IR-101 Ref: DOD T-1, page 31, Section F.
In the table of adjustments provided in Section F., the DOD includes two of HECO's revisions to Other Production O&M expenses contained in HECO's response to CA-IR-641, namely a decrease in Production O&M Expense by $220,000 for Non-labor CHP and a $75,000 decrease for Sun Power for Schools. HECO's revisions in CA-IR-641 also include increases to Production O&M expense with additions of $490,000 for changes in betterment accounting (see response to CA-IR-416) and $1,403,000 for inclusion of Distributed Generation expenses (see response to CA-IR-441). Does the omission of these two upward revisions from the table in Section F indicate the DOD's agreement with these revisions? If not, please explain and provide the basis for the DOD's position and all workpapers supporting the DOD's position.

Response:

No. DOD has not taken a position to date on these two HECO upward revisions and they were not specifically addressed in DOD witness Smith's testimony.

HECO/DOD-IR-102 Ref: DOD-T-1, page 17 line 23 to page 18 line 3; Exhibit DOD-112, page 1.
a. What is the basis for the DOD's proposed adjustment to the O&M non-labor lag days?
b. Does the DOD propose to treat pension and OPEB as cash items or non-cash items in the working cash calculation?
c. Please provide workpapers supporting the proposed 31 days O&M non-labor payment lag with a detailed description of the calculation.
d. Please provide a detailed explanation of how the calculations on Exhibit DOD-112 reflect the DOD's position described in response to part (a) above.

Response:

a. Including accrued but unpaid expenses in the determination of cash working capital at a zero expense lag causes a distortion to the Cash Working Capital calculation and a resultant overstatement of Working Cash, and therefore should be corrected.

b. On DOD-112 pensions and OPEB are part of a larger "O&M Non-labor" category, which overall is treated as a cash expense having a weighted payment lag of 31 days.

This contrasts with the overall 29 day payment lag proposed by HECO for the "O&M Non-labor" category which resulted from HECO erroneously assuming a payment lag of zero days for pension and OPEB cost.

c. See CA-WP-101-B9, page 3 of 3. The expense amounts for pension and OPEB to which HECO proposed to apply a zero-day lag are removed, and the weighted lag for O&M Non-Labor is recalculated without that distortive impact.

d. On DOD-112, the 31 day payment lag is reflected on line 3, column B. HECO's response to CA-IR-337 indicated that no pension funding payments are anticipated for the 2005 test year. Thus, the payment lag for 2005 pension expense is at least 182.5 days (365 days in 2005 /2 for average) if a full funding payment were to be assumed on 1/1/06 for the 2005 accruals, and possibly <u>much</u> longer if a payment date or dates beyond 1/1/06 were to be used. Accrued but unpaid expenses are a source of working cash, not a requirement of working cash. Logically, accrued but unpaid expenses should reduce rate base, not increase it. In a lead-lag study, cash expenses are assigned a payment lag based on when they are paid. For 2005 pension expense, because HECO projects no pension funding payments in 2005, we know that HECO's payment lag is not zero days and is at least 182.5 days and possibly much longer. By recalculating the non-labor lag as shown on CA-WP-101-B9, page 3 of 3, this is a very conservative way to neutralize the distortion on Cash Working Capital caused by HECO's assigning a zero lag to such expenses. If a payment lag of 182.5 days or longer were used for pensions, the overall weighted lag for the "O&M Non-Labor" category would be longer than the 31 days used.

HECO/DOD-IR-103 Ref: Exhibit DOD-112, page 1.
In calculating the DOD's adjustment to working cash at proposed rates of $15,687, please explain why $(13,108) is being reflected in column H as HECO proposed working cash at proposed rates, vs. the $(1,288) that HECO reflects as the total working cash at proposed rates in HECO-1907.

Response:

The $(13,108) on DOD-112, column H, was picked up from HECO-WP-2301, HECO-1901 and HECO-1907 as the "Change in Rate Base – Working Cash" that resulted from HECO's proposed rates. The intention was for Cash Working Capital to be presented on the DOD rate base exhibit (DOD-103) similar to the way Working Cash in rate base was presented on HECO-1901 in two pieces (first at present rates, then for an additional adjustment at proposed rates). On further review, the "Change in Working Cash" from DOD-112, Column G, line 10, of $(2,515) should have been carried into Column H and compared with the HECO amount of $(13,108), with the difference between those amounts of $10,593 being the adjustment for the "Change in Working Cash" resulting from proposed rates. The sum of the two Cash Working Capital amounts on DOD-103, column C, lines 16 and 18, should equal the amount shown on DOD-112, column H, line 9, as shown in the following table:

Cash Working Capital		Per		Per
DOD-103 Line and Column References		HECO	Adjustment	DOD
Line	Description	(A)	(B)	(C)
16	Working Cash (at present rates)	$ 11,820	$ (6,726)	$ 5,094
18	Working Cash (change at proposed rates)	$ (13,108)	***$ 10,593***	***$ (2,515)***
	Working Cash (at proposed rates)	$ (1,288)	$ 3,867	$ 2,579
		HECO-1907		DOD-112 Col.H, Line 9

Indicates corrected amounts

The adjustment on DOD-103, line 18, should be $10,593, rather than the $15,687 shown in Mr. Smith's exhibit.

HECO/DOD-IR-104 Ref: DOD T-1, page 28, lines 3 to 19.
Is it the position of the DOD that expenses for staff vacancies created by routine events such as retirements, terminations, transfers, etc., and new staff positions created to address new or different operations, such as changing production operations from 2 shifts, 5 days per week to 3 shifts, 7 days a week, or adding a new production night shift maintenance crew should be treated in the same manner? Please state the reasoning and basis for your response.

Response:

Objection: "in the same manner" is vague and ambiguous. Without waiving this objection, changes in labor cost projected to occur during the test year have, for the most part, been treated "in the same manner" by HECO in its own filing by assuming that "open" positions are filled as of 1/1/05 and remain filled for the entire test year, even where this is contradicted by the facts. In contrast, Mr. Smith's recommendation reflects changes in labor cost projected to occur during the test year by reflecting the estimated average test year impact.

HECO/DOD-IR-105 Ref: DOD T-1, page 27, line 15 to page 28 line 1.

a. Is it the position of the DOD that the availability of Honolulu Units 8 & 9 and Waiau Units 3 & 4 should not be increased from 16 hours per day, 5 days per week to 24 hours per day, 7 days per week? If your answer is "yes", please state all facts, which support your position and produce all studies or analyses, including any workpapers, which support your position.

b. Assuming that the availability of Honolulu Units 8 & 9 and Waiau Units 3 & 4 is increased from 16 hours per day, 5 days per week to 24 hours per day, 7 days per week, is it the position of the DOD that no additional operators are needed to operate the generating units during the longer hours of availability? If your answer is "yes", please state all facts, which support your position and produce all studies or analyses, including any workpapers, which support your position.

Response:

a. No. DOD has not specifically evaluated whether HECO's proposal to have these units available 24 hours per day, 7 days per week, represents an optimal mode of operation for

HECO, and Mr. Smith is not specifically objecting to HECO's proposal to increase the availability of H8, H9, W3 or W4 to 24x7 availability; however, HECO's proposed labor cost related to increased staffing is not reasonable because it includes cost in the test year for positions not yet hired, reflects no allowance for vacancies, and increases labor cost for a substantially higher employee count without substantial corresponding reductions to overtime cost. As an illustrative example, CA-IR-365 shows Waiau operations overtime projected for the test year of 23,465 hours, in comparison to 23,641 hours in 2003 and 22,760 hours in 2004. Thus, HECO's 2005 test year projection includes substantially increased staffing with essentially no reduction in overtime cost. Inclusive of the 4,919 hours for Honolulu operations, overtime assumed by HECO for the 2005 test year at the Waiau and Honolulu plants is 28,384 hours (23,465 for Waiau and 4,919 for Honolulu). Assuming about 2,000 productive straight-time hours per year per employee, the 28,384 hours of overtime is equivalent to slightly more than 14 new full-time positions.

b. No. See response to part a.

HECO/DOD-IR-106 Ref: DOD T-1, page 27, line 15 to page 28 line 1.

a. Is it the DOD's position that HECO will be able to continue to provide reliable electric service to Oahu into the future at the staffing levels recommended by the DOD? If your answer is "yes", please state all facts which support your position and produce all studies or analyses, including any workpapers, which support your position.

b. Does the DOD believe that work to maintain HECO's generating, transmission and distribution equipment should be focused not only on addressing immediate maintenance needs, but also on addressing long term maintenance which will ensure long term reliability of that equipment?

Response:

a. Objection: over-broad and unduly burdensome to "state all facts which support your position and produce all studies or analyses, including any workpapers, which support your position." Without waiving this objection, DOD witness Smith responds: In general, yes. HECO has generally been able to maintain reliable electric service to Oahu in prior years and currently providing reliable service; I have reflected staffing levels on average for the 2005 test year that are significantly increased from HECO's actual staffing at the beginning of the test year. Responses specifically relied upon for my recommended adjustments to HECO's proposed test year labor costs are cited in my testimony and exhibits.

b. In general, yes, a mix of short, intermediate and long-term maintenance projects should be conducted, and maintenance projects should be prioritized within the available budget, as HECO's operating experience over the past several years demonstrates.

HECO/DOD-IR-107 Ref: DOD T-1.

a. Are there any analyses or computations that the witness, or someone acting on his behalf, performed that are not included in the witness' testimony? If so, please describe in detail all such analyses or computations and provide copies of all documents relating thereto.

b. To the extent not identified in response to specific HECO Information Requests, please identify all documents upon which the witness relied in formulating the opinions and conclusions contained in his testimony.

c. Will the witness perform any additional work in this matter prior to the hearing? If so, please describe in detail what work the witness will perform.

Response:

a. Yes. Additional analyses are provided in DOD-101 through DOD-126 and in the Excel file that was previously provided to HECO.

b. The documents relied upon by the witness are referenced in his testimony and exhibits.

c. Most likely, yes. The witness will probably review testimony and IR responses, and may perform some or all of the following: respond to information requests, read HECO rebuttal, draft information requests, read responses to information requests, assist with settlement discussions, assist with preparation of cross examination.

HECO/DOD-IR-108 Ref: DOD T-1, page 33, line 13, through page 34, line 19; DOD T-1, page 39, lines 4 through 10.
The DOD indicates the adjustments to HECO's test year estimates for Administrative and General Expenses at DOD T-1, page 33. The DOD indicates it does not accept HECO's proposal to treat the King Street lease as a capital lease as described in the response to CA-IR-260.
Please provide the DOD's position regarding the company's other revisions to rent expense (revised rent for Central Pacific Plaza and Pauahi Tower) provided in response to CA-IR-260 and responses to CA-IR-617 and CA-IR-618.
If the DOD does not accept the revisions to the Company's other revisions to rent expense provided in responses to CA-IR-260, CA-IR-617 and CA-IR-618, on what basis does the DOD not accept the revisions?

Response:

Objection: HECO's other revisions to rent expense are beyond the scope of the witness's testimony. Without waiving the objection, the following response is provided: DOD witness Smith does not accept HECO's proposal to treat the King Street lease as a capital lease and his testimony does not address the Company's other revisions to rent expense.

The DOD witnesses cannot reasonably be expected to address all additional issues not covered in their testimony that might be raised by HECO in discovery. To the extent that additional issues not addressed in DOD's direct testimony are presented by HECO in rebuttal, DOD of course reserves the right to address such issues in cross-examination and briefs if deemed necessary.

HECO/DOD-IR-109 Ref: DOD T-1, pages 39 and 40.
DOD disagrees with treating the King Street Building lease as a capital lease for ratemaking purposes, although based on SFAS 13, the lease is a capital lease. With respect to generally accepted accounting principles, does the DOD concur with the Company that the lease should be treated as a capital lease for financial statement purposes?

Response:

Mr. Smith is not disputing HECO's interpretation that for financial statement purposes pursuant to SFAS 13 the King Street Building lease should be reported as a capital lease.

HECO/DOD-IR-110 Ref: DOD T-1, page 21, lines 1-19.

a. Please provide a cite in the Commission's Decision and Order No. 21698, Docket No. 04-0113, that requires the separation of DSM program expenses already in base rates from HECO's rate case and places them into the Energy Efficiency Docket.

b. Please explain why $685,000 of IRP Administrative Costs are includable in base rates while $618,000 of incremental IRP costs are not.

c. Please provide a cite in the Commission's Decision and Order No. 21698, Docket No. 04-0113, that separates IRP incremental expenses from HECO's rate case and places them into the Energy Efficiency Docket.

Response:

a. The Commission's Decision and Order No. 21698, Docket No. 04-0113, is open to interpretation on this point; however, at page 12, for example, it indicates that the

Commission opened the Energy Efficiency Docket to examine the following, among other issues to be determined in consultation with the parties to the new docket:

> "(1) Whether energy efficiency goals should be established and if so, what the goals should be for the State;
>
> (2) Whether the seven (7) proposed DSM programs (i.e., the CIEE, CINC, CICR, REWH, RNC, RLI, and ESH programs), the RCEA program, and/or other energy efficient programs will achieve the established energy efficiency goals and whether the programs will be implemented in a cost-effective manner;
>
> (3) What market structure(s) is the most appropriate for providing these or other DSM programs (e.g., utility-only, utility in competition with non-utility providers, non-utility providers);
>
> > (1) For utility-incurred costs, what cost recovery mechanism(s) is appropriate (e.g., base rates, fuel clause, IRP Clause); and
> >
> > (2) For utility-incurred costs, what cost level is appropriate?"

Items such as (3)(1) and (2) indicate that "utility-incurred costs" for providing these or other programs are to be considered in the Energy Efficiency Docket, rather than in the rate case, and that one of the purposes for which the Commission opened the Energy Efficiency Docket is to consider what recovery mechanism is appropriate for utility-incurred costs (e.g., base rates, fuel clause, IRP Clause). This indicates that whether such utility-incurred costs should be included in HECO's base rates, or in some other mechanism, is an issue that the Commission will consider in the Energy Efficiency Docket. The order also appears to specifically restrict DSM expenses in this rate case with words such as "...temporarily continue, in the same manner currently employed, its existing..." thus, all incremental DSM expenses are to be considered in Docket No. 05-0069.

b. The $685,000 IRP Administrative Costs were not removed from base rates in DOD witness Smith's direct testimony based on his understanding of Commission's Decision and Order No. 21698 because those were not identified as "incremental" costs; however, this should not be interpreted as any kind of affirmative support or a DOD position that such costs should be excluded from the Commission's consideration of "utility-incurred costs" in the Energy Efficiency Docket, and Mr. Smith would not object to the $685,000 IRP Administrative Costs also being excluded from the rate case and considered in the Energy Efficiency Docket. The $618,000 of incremental IRP costs have been removed because they are were identified as being "incremental" (i.e., increased costs) and should therefore be addressed in the Energy Efficiency Docket.

c. See response to a, above.

HECO/DOD-IR-111 Ref: Exhibit DOD-116.
The DOD did not increase Customer Services Expense for the additional $750,000 in Corporate Advertising requested by HECO for a general education and energy awareness message in CA-IR-533, pages 4 to 7. Please explain why the DOD did not include the additional corporate advertising cost in its estimate of Customer Services Expense.

Response:

Ratepayers should not be held responsible for the cost of an expanded advertising program that has not been shown to be cost effective or necessary. Additionally, the increased corporate advertising expense is not appropriate in this docket but should be addressed in Docket No. 05-0069 which was established by the Commission on March 15, 2005 to evaluate HECO's proposed DSM programs and related costs.

HECO/DOD-IR-112 Ref: DOD T-1, page 25, line 18 to page 26, line 9.
Exhibit DOD-118 adjusts the Company's operating budget for "open" positions. As shown in DOD/HECO-IR-8-8, page 6 of 11, some of the Energy Services/IRP "open" positions are related to DSM programs.

a. Did the DOD intend to adjust non-DSM operating costs for "open" DSM positions?

b. If "yes", please explain why. If "no", please provide a revised adjustment for Account 910 Customer Services that removes the effect of "open" DSM positions.

Response:

a. The adjustment addressed the level of increased labor cost for "open" positions included in HECO's filing and did not attempt to differentiate between non-DSM and DSM positions.

b. N/A.

HECO/DOD-IR-113 Ref: DOD T-1, page 31, Adjustments to Production O&M expense.
In the table of adjustments provided in Section F., the DOD adjusts Production O&M expenses for fuel expense for utility-owned CHP. Please explain why the DOD adjusted Production O&M expense for the fuel expense for utility-owned CHP when in response to DOD/HECO-IR-9-2, part e. HECO indicated the fuel expenses for CHP will removed from the test year Fuel Expense estimate (not the Production O&M expense estimate.) In addition, in response to DOD/HECO-IR-9-14, HECO indicated fuel costs for utility owned CHP were not included in Other Production O&M expenses.

Response:

The $838,000 should only be removed once from Fuel Expense. (Refer to response to HECO/DOD IR 114.)

HECO/DOD-IR-114 Ref: DOD-T-1, page 37-38, Fuel update place holder.
The DOD states that it has reflected the CA's adjustments C-1 through C-4, which take into consideration the revised 2005 test year sales forecast and updated fuel and purchased power costs. If the CA's adjustment C-4 reflects the removal of the fuel expenses for utility owned CHP, would the DOD agree, the DOD's adjustment #2 on the table on page 31 is a duplicate adjustment?

Response:

Yes. It appears that the $838,000 should only be removed once from Fuel Expense.

HECO/DOD-IR-115 Ref: DOD-T-1, page 30, lines 7 to 15, and Exhibit DOD-104, line 5.

a. On Exhibit DOD-104, line 5, the label "Fuel" should be more appropriately labeled "Fuel and Fuel Related Expenses. Is this is correct?
b. On Exhibit DOD-104, line 5, the DOD adjustment is shown as $156,267,000. This appears to be derived from Exhibit DOD-126, line 6, which shows a value of $156,939,000, reduced by $672,000 as provided in the referenced testimony. The $156,939,000 appears to come from CA-301, line 3, column (d), which already includes an adjustment made by the CA as shown on CA-301, line 2, column (d) and on CA-305, page 1. Isn't the DOD proposing a double reduction on fuel related expenses?

Response:

a. Not necessarily. See, e.g., HECO-2301, where the corresponding line is labeled "Fuel."

b. It does appear that the $672,000 has been removed twice, but should only be removed once.

CERTIFICATE OF SERVICE

I hereby certify that one copy of the foregoing DEPARTMENT OF DEFENSE'S RESPONSE TO HAWAIIAN ELECTRIC COMPANY, INC.'S IR'S (REVENUE REQUIREMENTS) was duly served upon the following parties, by personal service, hand-delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR sec. 6-61-21(d).

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